

DIRECT TESTIMONY AND EXHIBITS OF

KELVIN L. MAJOR

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2019-64-WS

**IN RE: APPLICATION OF CUC, INCORPORATED FOR ADJUSTMENT OF
RATES AND CHARGES**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Kelvin L. Major. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) in the Audit Department as an Audit Manager.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Accounting from Clemson University in August of 2001. In October of 2009, I began my employment with ORS and since then have participated in various audits dealing with the regulation of telecommunications, electric, transportation, water and wastewater companies.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“PSC” OR “COMMISSION”)?

A. Yes.

Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?

A. ORS represents the public interest as defined by the South Carolina General Assembly as:

[T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to set forth ORS's findings and recommendations resulting from ORS's examination of the application of CUC, Inc. ("CUC" or "Company") in this docket, 2019-64-WS. The application was filed on July 23, 2019.

Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?

Yes. The review to which I testify was performed by me or under my supervision.

Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE EXAMINATION OF THE APPLICATION OF CUC.

A. ORS's examination of the Company's application consisted of three major steps. In step one, ORS verified that the operating experience, reported by CUC in its application, was supported by CUC's accounting books and records for the twelve months ended December 31, 2018 ("test year"). In the second step, ORS tested the underlying transactions in the books and records for the test year to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking purposes, and were properly recorded. Lastly, ORS's examination consisted of adjusting, as necessary, the revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base, in accordance with generally accepted regulatory principles and prior Commission orders.

Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. I have attached the following exhibits to my testimony relating to the Company's application:

- Audit Exhibit KLM-1: Operating Experience, Operating Margin, and Rate Base for Combined Operations Reflecting ORS's Proposed Increase
- Audit Exhibit KLM-2: Operating Experience, Operating Margin, and Rate Base for Water Operations Reflecting ORS's Proposed Increase
- Audit Exhibit KLM-3: Operating Experience, Operating Margin, and Rate Base for Sewer Operations Reflecting ORS's Proposed Increase
- Audit Exhibit KLM-4: Explanation of Accounting and Pro Forma Adjustments
- Audit Exhibit KLM-5: Computation of Depreciation and Amortization Expense
- Audit Exhibit KLM-6: Computation of Income Taxes
- Audit Exhibit KLM-7: Computation of Cash Working Capital Allowance
- Audit Exhibit KLM-8: Operating Experience, Operating Margin, and Rate Base for Combined, Water, and Sewer Operations Reflecting the Company's Proposed Increase

These exhibits were either prepared by me or were prepared under my direction and supervision in compliance with recognized accounting and regulatory procedures for water and wastewater utility rate cases. These exhibits show various aspects of CUC's operations and financial position.

Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT KLM-1 AND ELABORATE ON THE CALCULATIONS.

A. Audit Exhibit KLM-1 details the Company's operating experience, operating margin, and rate base for combined water and sewer operations for the test year. The exhibit's format is designed to reflect the application per books and ORS's proposed accounting and pro forma adjustments necessary to normalize the results of the Company's test year operations

1 and to reflect ORS's proposed increase, based on the application filed by the Company and
2 the operating margin recommended by ORS witness Michael Seaman-Huynh.

3 Column (1) details the application per books provided by CUC for the test year. ORS
4 verified total operating revenue of \$1,277,067, total operating expenses of \$1,222,772,
5 interest expense of \$1,365, and net income for margin of \$52,930 to the Company's books
6 and records. The application operating margin of 4.14% was calculated by dividing net
7 income for margin by total operating revenues.

8 Column (2) details ORS's proposed accounting and pro forma adjustments designed
9 to normalize the application per books. An explanation of each adjustment is contained in
10 Audit Exhibit KLM-4.

11 Column (3) details ORS's calculation of a normalized test year for CUC by adding
12 columns (1) and (2). After the accounting and pro forma adjustments, net income for margin
13 of \$76,412 was computed using total operating revenues of \$1,284,946, less total operating
14 expenses of \$1,206,347, less interest expense of \$2,187. An operating margin of 5.95% was
15 computed by dividing net income for margin by total operating revenues.

16 Column (4) details ORS's proposed increase and taxes associated with ORS's
17 proposed increase. An explanation of each adjustment is contained in Audit Exhibit KLM-
18 4.

19 Column (5) details the effect of ORS's proposed increase by adding columns (3) and
20 (4). Net income for margin of \$172,599 was computed using total operating revenues of
21 \$1,379,196, less total operating expenses of \$1,230,447, adding the amortization of excess
22 revenues of \$26,037, less interest expense of \$2,187. An operating margin of 12.51% was
23 computed by dividing net income for margin by total operating revenues.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT KLM-4.

A. For comparative purposes, ORS's and CUC's adjustments are both presented in Audit Exhibit KLM-4.

Adjustment 1 – Metered Revenue Water – ORS and CUC propose to adjust water and sewer revenues for the test year. This adjustment is discussed in further detail in the testimony of ORS witness Michael Seaman-Huynh.

Adjustment 2 – Other Revenues – ORS and CUC propose to adjust other revenues. This adjustment was provided by ORS witness Michael Seaman-Huynh.

Adjustment 3 – Operating Expenses – ORS's total operating expenses adjustment is (\$19,555). This adjustment is comprised of the following operating expense adjustments:

Adjustment 3A – Salaries and Wages – ORS and CUC propose to annualize salaries and wages, remove an employee included in test year expenses and remove bonuses paid to officers and managers during the test year. ORS annualized salaries and benefits using actual pay stubs and benefit cost and enrollment data as of July 2019. ORS computed its salaries and wages adjustment using annualized salaries of \$435,315, less the portion of operator salaries that were capitalized for the installation of water and sewer taps of \$2,131, less the per book salaries and wages of \$476,499, resulting in an ORS adjustment of (\$43,315).

Adjustment 3B – Employee Pensions and Benefits – ORS and CUC propose to annualize 401-K expense and health insurance. ORS annualized 401K expense based on the Company's 401K matching policy and actual employee contributions. ORS annualized health insurance based on the health insurance premiums as of October 1, 2019. ORS calculated allowable 401K and health insurance expense of \$214,328. This amount, less the portion of operator pensions and benefits that were capitalized for the installation of water

and sewer taps of \$1,085, less the Company's per book pensions and benefits amount of \$204,488, yields an ORS adjustment of \$8,755. ORS's adjustment differs from the Company's adjustment due to an employee changing their health insurance coverage.

Adjustment 3C – Purchased Water Costs – ORS and CUC propose to adjust purchased water costs for the rates charged by Beaufort-Jasper Water & Sewer Authority. ORS's adjustment updates purchased water costs to the most current rate effective as of July 2019. This results in an adjustment of \$12,727.

Adjustment 3D – Postage Expenses – ORS and CUC propose to adjust postage expenses to reflect the increase in postage and meter rental rates. ORS's adjustment updates the postage expense to the most current postage and meter rental rates as of 2019. This results in an adjustment of \$576.

Adjustment 3E – Maintenance Expenses – ORS and CUC propose to adjust maintenance expenses. This adjustment is discussed in further detail in the testimony of ORS witness Jakeyla James.

Adjustment 3F – Contractual Services – ORS and CUC propose to adjust contractual services by (\$1,691) to reflect the increase in lab testing fees and the removal of fees associated with the Department of Health and Environmental Control Safe Drinking Water Act.

Adjustment 3G – Transportation Expenses – ORS and CUC propose to adjust transportation expenses. This adjustment is discussed in further detail in the testimony of ORS witness Jakeyla James.

Adjustment 3H – Insurance Expenses – ORS and CUC propose to adjust insurance expenses.

This adjustment is discussed in further detail in the testimony of ORS witness Jakeyla James.

1 Adjustment 3I – Miscellaneous Expenses – ORS and CUC propose to adjust miscellaneous
2 expenses to remove cell phone expenses for non-utility employees. ORS reviewed the
3 Company's cell phone bills during the test year and removed amounts associated with non-
4 utility employees, yielding an adjustment of (\$844).

5 Adjustment 3J – Sludge Removal Expenses – ORS and CUC propose to adjust sludge
6 removal expenses. This adjustment is discussed in further detail by ORS witness Jakeyla
7 James.

8 Adjustment 3K – Chemical Expenses – ORS and CUC propose to adjust chemical expenses
9 to reflect an increase in the cost of chemicals. ORS annualized the average quarterly
10 chemical expenses incurred during quarters 1 and 2 of 2019, resulting in allowable chemical
11 expenses of \$6,197, less per book chemical expenses of \$6,111, yielding an adjustment of
12 \$86. The Company's adjustment annualized only quarter 1 of 2019 chemical expenses.

13 Adjustment 3L – Miscellaneous Non-Utility Expense (Nonallowables) – ORS proposes an
14 adjustment of (\$2,996) to remove expenses ORS identified as non-allowable for ratemaking
15 purposes. ORS removed \$90 for an expense for which the Company provided no invoice,
16 \$309 of expenses with no stated business purpose, \$230 in late fees, \$1,990 of credit card
17 interest, and \$377 for donations, sponsorships, and other non-utility expenses recorded in the
18 non-utility plant account. The Company's adjustment removed a non-utility account in the
19 amount of \$547, which is included in the calculation of ORS's adjustment.

20 Adjustment 4 – Depreciation & Amortization Expense – ORS and CUC propose to adjust
21 depreciation and amortization expense. See Audit Exhibit KLM-5 and the testimony of ORS
22 witness Jakeyla James for details of this adjustment.

1 Adjustment 5 – Rate Case Expenses – ORS and CUC propose to amortize rate case expenses
2 over a three year period. The Company submitted \$12,043 of rate case expenses prior to
3 ORS’s October 1, 2019 cutoff date. This amount, amortized over three years, results in
4 annual amortization expense adjustment of \$4,014.

5 Adjustment 6 – Taxes Other Than Income – ORS’s adjustment for taxes other than income
6 is \$461. This adjustment is comprised of the following utility tax adjustments:

7 Adjustment 6A – Property Taxes – ORS and CUC propose an adjustment to property taxes.
8 This adjustment is discussed in further detail in the testimony of ORS witness Jakeyla James.

9 Adjustment 6B – Gross Receipts Tax – ORS and CUC propose to adjust gross receipts taxes
10 for accounting and pro forma adjustments. ORS used a factor of .0082728, which is
11 comprised of .0052728 for the ORS and PSC, and .003 for the South Carolina Department
12 of Revenue utility license fee. ORS proposes to increase gross receipts tax by \$779.

13 Adjustment 6C – Payroll Taxes – ORS proposes an adjustment of (\$3,333) to payroll taxes
14 to reflect the level of adjusted test year wages and salaries as calculated by ORS in adjustment
15 3A.

16 Adjustment 7 – Income Tax Expense – ORS and CUC propose to adjust state income taxes
17 on pro forma income at 5% and federal income taxes on pro forma income at 21%. ORS
18 proposes an adjustment of \$7,807 for state and federal income taxes after accounting and pro
19 forma adjustments. See Audit Exhibit KLM-6 for details of this adjustment.

20 Adjustment 8 – Interest Expense – ORS proposes to adjust interest expense using interest
21 synchronization. ORS calculated its adjustment using an allowable rate base of \$230,280, a
22 50% debt and 50% equity capital structure, and a cost of debt of 1.9%.

1 ORS calculated synchronized interest expense of \$2,187, less the Company's per book
2 interest expense of \$1,365, yields an ORS adjustment of \$822.

3 Adjustment 9 – Gross Plant in Service – ORS proposes to adjust gross plant in service. See
4 Audit Exhibit KLM-5 and the testimony of ORS witness Jakeyla James for details of this
5 adjustment.

6 Adjustment 10 – Accumulated Depreciation – ORS proposes to adjust accumulated
7 depreciation. See Audit Exhibit KLM-5 and the testimony of ORS witness Jakeyla James
8 for details of this adjustment.

9 Adjustment 11 – Contributions in Aid of Construction (“CIAC”) – ORS proposes to adjust
10 CIAC. This adjustment is discussed in further detail in the testimony of ORS witness Jakeyla
11 James.

12 Adjustment 12 – Accumulated Amortization of CIAC – ORS proposes to adjust the
13 accumulated amortization of CIAC. This adjustment is discussed in further detail in the
14 testimony of ORS witness Jakeyla James.

15 Adjustment 13 – Cash Working Capital – ORS proposes to adjust for cash working capital
16 after accounting and pro forma adjustments. ORS used a 45 day allowance, or 12.50% of
17 operating expenses for the cash working capital adjustment of \$138,902. Details of this
18 adjustment are included in Audit Exhibit KLM-7.

19 Adjustment 14 – Metered Revenues – ORS and CUC propose to adjust water and sewer
20 revenues for a proposed increase in metered revenues. This adjustment is discussed in further
21 detail in the testimony of ORS witness Michael Seaman-Huynh.

Adjustment 15 – Taxes Other Than Income – ORS and CUC propose to adjust gross receipts for the proposed increase. ORS proposes to adjust gross receipts for ORS’s proposed increase using a factor of .0082728. ORS proposes to increase gross receipts taxes by \$780.

Adjustment 16 – Income Taxes – ORS and CUC propose to adjust income taxes for the proposed increase using the 5% state income tax rate and the 21% federal income tax rate. ORS proposes to increase income taxes by \$23,320. Details of ORS’s computation of state and federal income taxes are included in Audit Exhibit KLM-6.

Adjustment 17 – Excess Revenues – ORS proposes an adjustment to operating income of \$26,037 to reflect the three-year amortization of excess revenues resulting from the lower federal tax rate due to the Tax Cuts and Jobs Act (“TCJA”). This adjustment reflects the calculation of the Company’s total excess revenues of \$78,110. This adjustment is discussed in further detail in the testimony of ORS witness Michael Seaman-Huynh, and the amounts, grossed up for taxes, are reflected in Exhibit MSH-4.

Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.

A. Audit Exhibit KLM-5 details the computation of ORS’s depreciation and amortization expense. Audit Exhibit KLM-6 details the computation of income taxes. Audit Exhibit KLM-7 details the computation of the cash working capital allowance. Audit Exhibit KLM-8 details the Company’s operating experience, operating margin, and rate base for combined, water, and sewer operations for the test year. The exhibit’s format is designed to reflect the application per books and ORS’s proposed accounting and pro forma adjustments necessary to normalize the results of the Company’s test year operations and to reflect the Company’s proposed increase as recalculated by ORS.

1 **Q. WILL YOU UPDATE YOUR TESTIMONY BASED ON INFORMATION THAT**
2 **BECOMES AVAILABLE?**

3 **A.**Yes. ORS fully reserves the right to revise its recommendations via supplemental
4 testimony should new information become available not previously provided by the
5 Company.

6 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

7 **A.**Yes.

CUC, Inc.
Docket No. 2019-64-WS
Operating Experience, Operating Margin, & Rate Base Reflecting ORS's Proposed Increase
For the Test Year Ended December 31, 2018
Combined Operations

Description	(1) Application Per Books	(2) Accounting & Pro Forma Adjustments	(3) After Accounting & Pro Forma Adjustments	(4) ORS Proposed Increase	(5) After Proposed Increase
	\$	\$	\$	\$	\$
Operating Revenues:					
Metered Revenue	1,213,936	(12,824) (1)	1,201,112	94,250 (14)	1,295,362
Other Revenue	63,131	20,703 (2)	83,834	0	83,834
Total Operating Revenues	1,277,067	7,879	1,284,946	94,250	1,379,196
Operating Expenses:					
Operating Expenses	1,130,764	(19,555) (3)	1,111,209	0	1,111,209
Depreciation & Amortization	24,946	(9,152) (4)	15,794	0	15,794
Rate Case Expenses	0	4,014 (5)	4,014	0	4,014
Taxes Other Than Income	49,466	461 (6)	49,927	780 (15)	50,707
Income Taxes	17,596	7,807 (7)	25,403	23,320 (16)	48,723
Total Operating Expenses	1,222,772	(16,425)	1,206,347	24,100	1,230,447
Total Operating Income	54,295	24,304	78,599	70,150	148,749
Other Operating Income					
Add: Amortization of Excess Revenues	0	0	0	26,037 (17)	26,037
Net Operating Income	54,295	24,304	78,599	96,187	174,786
Less: Interest Expense	1,365	822 (8)	2,187	0	2,187
Net Income for Margin	52,930	23,482	76,412	96,187	172,599
Operating Margin	4.14%		5.95%		12.51%
Original Cost Rate Base:					
Gross Plant in Service	603,995	191,802 (9)	795,797	0	795,797
Accumulated Depreciation	(508,622)	(59,210) (10)	(567,832)	0	(567,832)
Net Plant in Service	95,373	132,592	227,965	0	227,965
Contributions in Aid of Construction (CIAC)	(831,775)	(402,127) (11)	(1,233,902)	0	(1,233,902)
Accumulated Amortization of CIAC	0	1,091,088 (12)	1,091,088	0	1,091,088
Materials and Supplies	6,227	0	6,227	0	6,227
Cash Working Capital	0	138,902 (13)	138,902	0	138,902
Accumulated Deferred Income Taxes	0	0	0	0	0
Total Rate Base	(730,175)	960,455	230,280	0	230,280

CUC, Inc.
Docket No. 2019-64-WS
Operating Experience, Operating Margin, & Rate Base Reflecting ORS's Proposed Increase
For the Test Year Ended December 31, 2018
Water Operations

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) ORS Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenues:</u>					
Metered Revenue	828,140	(7,841) (1)	820,299	53,930 (14)	874,229
Other Revenue	20,412	14,648 (2)	35,060	0	35,060
Total Operating Revenues	848,552	6,807	855,359	53,930	909,289
<u>Operating Expenses:</u>					
Operating Expenses	605,627	(8,886) (3)	596,741	0	596,741
Depreciation & Amortization	15,009	(7,287) (4)	7,722	0	7,722
Rate Case Expenses	0	2,007 (5)	2,007	0	2,007
Taxes Other Than Income	24,733	2,050 (6)	26,783	446 (15)	27,229
Income Taxes	17,596	37,568 (7)	55,164	13,344 (16)	68,508
Total Operating Expenses	662,965	25,452	688,417	13,790	702,207
Total Operating Income	185,587	(18,645)	166,942	40,140	207,082
<u>Other Operating Income</u>					
Add: Amortization of Excess Revenues	0	0	0	35,040 (17)	35,040
Net Operating Income	185,587	(18,645)	166,942	75,180	242,122
Less: Interest Expense	683	325 (8)	1,008	0	1,008
Net Income for Margin	184,904	(18,970)	165,934	75,180	241,114
Operating Margin	21.79%		19.40%		26.52%
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	222,489	123,468 (9)	345,957	0	345,957
Accumulated Depreciation	(169,351)	(45,470) (10)	(214,821)	0	(214,821)
Net Plant in Service	53,138	77,998	131,136	0	131,136
Contributions in Aid of Construction (CIAC)	(524,855)	(220,145) (11)	(745,000)	0	(745,000)
Accumulated Amortization of CIAC	0	645,407 (12)	645,407	0	645,407
Materials and Supplies	0	0	0	0	0
Cash Working Capital	0	74,593 (13)	74,593	0	74,593
Accumulated Deferred Income Taxes	0	0	0	0	0
Total Rate Base	(471,717)	577,853	106,136	0	106,136

CUC, Inc.
Docket No. 2019-64-WS
Operating Experience, Operating Margin, & Rate Base Reflecting ORS's Proposed Increase
For the Test Year Ended December 31, 2018
Sewer Operations

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) ORS Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenues:</u>					
Metered Revenue	385,796	(4,983) (1)	380,813	40,320 (14)	421,133
Other Revenue	42,719	6,055 (2)	48,774	0	48,774
Total Operating Revenues	428,515	1,072	429,587	40,320	469,907
<u>Operating Expenses:</u>					
Operating Expenses	525,137	(10,669) (3)	514,468	0	514,468
Depreciation & Amortization	9,937	(1,865) (4)	8,072	0	8,072
Rate Case Expenses	0	2,007 (5)	2,007	0	2,007
Taxes Other Than Income	24,733	(1,589) (6)	23,144	334 (15)	23,478
Income Taxes	0	(29,761) (7)	(29,761)	9,976 (16)	(19,785)
Total Operating Expenses	559,807	(41,877)	517,930	10,310	528,240
Total Operating Income	(131,292)	42,949	(88,343)	30,010	(58,333)
<u>Other Operating Income</u>					
Add: Amortization of Excess Revenues	0	0	0	(9,003) (17)	(9,003)
Net Operating Income	(131,292)	42,949	(88,343)	21,007	(67,336)
Less: Interest Expense	682	497 (8)	1,179	0	1,179
Net Income for Margin	(131,974)	42,452	(89,522)	21,007	(68,515)
Operating Margin	-30.80%		-20.84%		-14.58%
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	381,506	68,334 (9)	449,840	0	449,840
Accumulated Depreciation	(339,271)	(13,740) (10)	(353,011)	0	(353,011)
Net Plant in Service	42,235	54,594	96,829	0	96,829
Contributions in Aid of Construction (CIAC)	(306,920)	(181,982) (11)	(488,902)	0	(488,902)
Accumulated Amortization of CIAC	0	445,681 (12)	445,681	0	445,681
Materials and Supplies	6,227	0	6,227	0	6,227
Cash Working Capital	0	64,309 (13)	64,309	0	64,309
Accumulated Deferred Income Taxes	0	0	0	0	0
Total Rate Base	(258,458)	382,602	124,144	0	124,144

CUC, Inc.
Docket No. 2019-64-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2018

ORS Adj. #	CUC Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<u>Accounting and Pro forma Adjustments</u>					
(1)	(1), (2)	<u>Metered Revenue</u> To annualize water and sewer revenue.			
		Per ORS	(12,824)	(7,841)	(4,983)
		Per CUC	(2,871)	(8,114)	5,243
(2)	(3)	<u>Other Revenue</u> To adjust other revenue.			
		Per ORS	20,703	14,648	6,055
		Per CUC	(4,995)	(4,995)	0
(3)	(4)	<u>Operating Expenses</u>			
(3A)	(4A)	To annualize the current levels of salaries and wages.			
		Per ORS	(43,315)	(20,894)	(22,421)
		Per CUC	(42,133)	(19,741)	(22,392)
(3B)	(4B)	To reflect increases in 401-K expense and health insurance premiums.			
		Per ORS	8,755	4,039	4,716
		Per CUC	6,516	3,214	3,302
(3C)	(4C)	To reflect the recent increase in the wholesale price of purchased water.			
		Per ORS	12,727	12,727	0
		Per CUC	8,971	8,971	0
(3D)	(4D)	To adjust postage expense to reflect the increase in postage rates and meter rental rates.			
		Per ORS	576	288	288
		Per CUC	286	143	143

CUC, Inc.
Docket No. 2019-64-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2018

<u>ORS Adj. #</u>	<u>CUC Adj. #</u>	<u>Description</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
(3E)	(4E)	To adjust maintenance expense to reflect the removal of items that have been capitalized.			
		Per ORS	(1,084)	(514)	(570)
		Per CUC	(1,929)	(514)	(1,415)
(3F)	(4F)	To adjust contractual services to reflect increases in lab testing fees and removal of DHEC Safe Drinking Water Act fees.			
		Per ORS	(1,691)	(3,515)	1,824
		Per CUC	(1,691)	(3,515)	1,824
(3G)	(4G)	To adjust transportation expense to remove and replace all officer transportation expenses with officer mileage allowances.			
		Per ORS	2,167	1,077	1,090
		Per CUC	3,468	1,734	1,734
(3H)	(4H)	To adjust insurance expense to reflect new vehicles purchased and the removal of insurance on the officer vehicle.			
		Per ORS	(280)	(174)	(106)
		Per CUC	(148)	(74)	(74)
(3I)	(4I)	To adjust miscellaneous expense to remove cell phone expenses for non-utility employees.			
		Per ORS	(844)	(422)	(422)
		Per CUC	(876)	(438)	(438)
(3J)	(4J)	To adjust sludge removal to reflect a three-year average of expenses.			
		Per ORS	6,344	0	6,344
		Per CUC	4,841	0	4,841
(3K)	(4K)	To adjust chemical expenses to reflect an increase in chemical costs.			
		Per ORS	86	0	86
		Per CUC	56	0	56

CUC, Inc.
Docket No. 2019-64-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2018

<u>ORS Adj. #</u>	<u>CUC Adj. #</u>	<u>Description</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
(3L)	(4L)	To remove non-utility expense and other nonallowables identified by ORS.			
		Per ORS	(2,996)	(1,498)	(1,498)
		Per CUC	(547)	(274)	(273)
(3)		Total Operating Expenses Per ORS	(19,555)	(8,886)	(10,669)
	(4)	Total Operating Expenses Per CUC	(23,186)	(10,494)	(12,692)
(4)	(5)	<u>Depreciation & Amortization Expense Adjustment</u> To adjust depreciation and amortization to reflect the addition of new company vehicles, the removal of an officer vehicle, amortization of tap fees, and other adjustments to plant in service. See Exhibit KLM-5.			
		Per ORS	(9,152)	(7,287)	(1,865)
		Per CUC	(1,707)	(3,733)	2,026
(5)	(7)	<u>Rate Case Expenses</u> To amortize rate case expenses over 3 years.			
		Per ORS	4,014	2,007	2,007
		Per CUC	13,333	6,667	6,666
(6)	(8)	<u>Taxes Other Than Income</u>			
(6A)	(8)	To adjust property taxes for the new company vehicles and the removal of property taxes on the officer vehicle.			
		Per ORS	3,015	1,508	1,507
		Per CUC	4,267	2,134	2,133
(6B)		To adjust gross receipts tax after the accounting and pro forma adjustments using a factor of .0082728 (.0052728 for PSC/ORS and .003 for SCDOR).			
		Per ORS	779	2,150	(1,371)
		Per CUC	0	0	0

CUC, Inc.
Docket No. 2019-64-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2018

<u>ORS Adj. #</u>	<u>CUC Adj. #</u>	<u>Description</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
(6C)		To adjust payroll taxes to reflect the current levels of salaries and wages.			
		Per ORS	(3,333)	(1,608)	(1,725)
		Per CUC	0	0	0
(6)		Total Taxes Other Than Income Per ORS	<u>461</u>	<u>2,050</u>	<u>(1,589)</u>
(8)		Total Taxes Other Than Income Per CUC	<u>4,267</u>	<u>2,134</u>	<u>2,133</u>
(7)	(9)	<u>Income Taxes</u> To adjust state income taxes on pro forma income at 5% and federal income taxes on pro forma income at 21%. See Audit Exhibit KLM-6.			
		Per ORS	<u>7,807</u>	<u>37,568</u>	<u>(29,761)</u>
		Per CUC	<u>(606)</u>	<u>(400)</u>	<u>(206)</u>
(8)	(6)	<u>Interest Expense</u> To synchronize interest expense with the portion of rate base financed by debt.			
		Per ORS	<u>822</u>	<u>325</u>	<u>497</u>
		Per CUC	<u>1,856</u>	<u>928</u>	<u>928</u>
(9)		<u>Gross Plant In Service</u> To adjust gross plant in service. See Audit Exhibit KLM-5.			
		Per ORS	<u>191,802</u>	<u>123,468</u>	<u>68,334</u>
		Per CUC	<u>0</u>	<u>0</u>	<u>0</u>
(10)		<u>Accumulated Depreciation</u> To adjust accumulated depreciation. See Audit Exhibit KLM-5.			
		Per ORS	<u>(59,210)</u>	<u>(45,470)</u>	<u>(13,740)</u>
		Per CUC	<u>0</u>	<u>0</u>	<u>0</u>

CUC, Inc.
Docket No. 2019-64-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2018

ORS Adj. #	CUC Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(11)		<u>Contributions In Aid of Construction ("CIAC")</u> To adjust contributions in aid of construction.			
		Per ORS	(402,127)	(220,145)	(181,982)
		Per CUC	0	0	0
(12)		<u>Accumulated Amortization of CIAC</u> To adjust accumulated amortization of contributions in aid of construction.			
		Per ORS	1,091,088	645,407	445,681
		Per CUC	0	0	0
(13)		<u>Cash Working Capital</u> To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit KLM-7.			
		Per ORS	138,902	74,593	64,309
		Per CUC	0	0	0
<u>Proposed Increase</u>					
(14)	(10), (11)	<u>Metered Revenue</u> To adjust revenues to reflect ORS's calculation of the proposed increase. This adjustment is calculated by the ORS Utility Rates Department.			
		Per ORS	94,250	53,930	40,320
		Per CUC	238,004	161,163	76,841
(15)	(12)	<u>Taxes Other Than Income</u> To increase gross receipts associated with ORS's proposed increase using a factor of .0082728.			
		Per ORS	780	446	334
		Per CUC	1,122	760	362

CUC, Inc.
Docket No. 2019-64-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2018

<u>ORS</u> <u>Adj. #</u>	<u>CUC</u> <u>Adj. #</u>	<u>Description</u>	<u>\$</u> <u>Combined</u> <u>Operations</u>	<u>\$</u> <u>Water</u> <u>Operations</u>	<u>\$</u> <u>Sewer</u> <u>Operations</u>
(16)	(13)	<u>Income Taxes</u> To adjust state income taxes for ORS's proposed increase using a 5% tax rate and federal income taxes for ORS's proposed increase using a 21% tax rate. See Audit Exhibit KLM-6.			
		Per ORS	23,320	13,344	9,976
		Per CUC	59,101	40,020	19,081
(17)		<u>Amortization of Excess Revenues</u> To adjust for the 3 year amortization of excess revenues due to the Tax Cuts and Jobs Act. This adjustment was provided by the ORS Utility Rates Department.			
		Per ORS	26,037	35,040	(9,003)
		Per CUC	0	0	0

CUC, Inc.
Docket No. 2019-64-WS
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2018

Date Acquired	Description	Amount	Service Life	Accumulated Depreciation/ Amortization	Depreciation/ Amortization Expense	Allocation to Water	Depr./Amort. Expense Allocated to Water	Allocation to Wastewater	Depr./Amort. Expense Allocated to Wastewater
10/30/2018	HYDRANT	1,617	7	462	231	100%	231	0%	0
5/3/2019	5-1/4 MUL/HYD 1'6 HYD EXT KIT	524	40	13	13	100%	13	0%	0
4/18/2014	2014 MERCEDES ML350W2	67,228	6	67,228	11,205	50%	5,603	50%	5,602
1/21/2014	2014 FORD F150 - VIN: 1FTFW1EF9EFA05987	22,428	6	22,428	3,738	50%	1,869	50%	1,869
1/21/2014	2014 FORD F150 - VIN: 1FTMF1CM0EKD068687	22,428	6	22,428	3,738	50%	1,869	50%	1,869
1/21/2014	2014 FORD F150 - VIN: 1FTMF1CMXEKD13539	26,245	6	26,245	4,374	50%	2,187	50%	2,187
2/27/2019	2019 FORD F150 - VIN: 1FTEX1CBXKKC00590	33,101	6	5,517	5,517	50%	2,759	50%	2,758
2/26/2019	2019 FORD F150 - VIN: 1FTEX1CB2KFA05611	33,539	6	5,590	5,590	50%	2,795	50%	2,795
2/27/2019	2019 FORD F150 - VIN: 1FTEW1E58KFA84759	48,133	6	8,022	8,022	50%	4,011	50%	4,011
2/27/2019	2019 FORD F150 - VIN: 1FTEX1CB5KKC06832	33,539	6	5,590	5,590	50%	2,795	50%	2,795
6/30/2013	CAT BACKHOE	63,121	6	63,121	FD	50%	FD	50%	FD
6/5/2006	FP ULTIMAIL MAIL MACHINE	4,616	15	4,308	308	50%	154	50%	154
2/28/2007	COMPUTER	741	6	741	FD	50%	FD	50%	FD
10/31/2007	FOLDER/INSERTER MACHINE	4,596	15	3,983	306	50%	153	50%	153
8/29/2013	AC UNIT	740	7	740	106	50%	53	50%	53
10/26/2018	DS-35 FOLDER INSERTER NEOPOST	4,876	15	650	325	50%	163	50%	162
4/13/2015	SI PLANT ACTUATOR	3,341	18	928	186	0%	0	100%	186
9/13/2014	WWTP FLOW METER FOR SPRING ISLAND	1,300	5	1,300	FD	0%	FD	100%	FD
7/29/2017	REFURBISHED FLOW METER	1,000	5	600	200	0%	0	100%	200
7/3/2006	AC UNIT - SPRING ISLAND PLANT	736	7	736	FD	0%	FD	100%	FD
1/15/1986	SEWER PUMP	20,000	16	20,000	FD	0%	FD	100%	FD
1/15/1987	SEWER PUMP	8,966	16	8,966	FD	0%	FD	100%	FD
1/15/1988	SEWER PUMP	4,799	16	4,799	FD	0%	FD	100%	FD
7/15/1989	SEWER PUMP STATION	4,581	23	4,581	FD	0%	FD	100%	FD
1/15/1986	SEWER MAIN	33,000	27	33,000	FD	0%	FD	100%	FD
1/15/1987	SEWER MAIN	21,519	27	21,519	FD	0%	FD	100%	FD
1/15/1988	SEWER MAIN	19,973	27	19,973	FD	0%	FD	100%	FD
7/15/1989	SEWER MAIN	7,717	27	7,717	FD	0%	FD	100%	FD
8/3/2019	2 KEEN KG3-2083 PUMPS AND 2 ADAPTER MYERS RWG AND 4 MYERS G	13,966	18	776	776	0%	0	100%	776
8/2/2006	HYSROMATIC NON-CLOG PUMP	6,034	13	6,034	FD	0%	FD	100%	FD
4/22/2018	CONTROL PANEL FOR SILIFT STATION 1	1,995	10	399	200	0%	0	100%	200
4/22/2018	CONTROL PANEL FOR SILIFT STATION 2	1,995	10	399	200	0%	0	100%	200
1/15/1986	SEWER PLANT	111,000	29	111,000	FD	0%	FD	100%	FD
6/2/2015	PUMP FOR SL	646	18	179	36	0%	0	100%	36
10/28/2016	SEWAGE PUMP	4,536	18	1,008	252	0%	0	100%	252
3/22/2006	MULTIPARAMETER WATER QUALITY ANALYSER	12,461	7	12,461	FD	0%	FD	100%	FD
5/7/2009	DISSOLVED OXYGEN METER	827	7	827	FD	0%	FD	100%	FD
6/12/2013	YSI pH METER	1,770	7	1,770	253	0%	0	100%	253
4/17/2018	YSI PROPLUS METER & DUAL PROBE CABLE	1,952	15	260	130	0%	0	100%	130
2/3/2006	SHOVEL	26	14	26	2	0%	0	100%	2
8/3/2006	ALUM LADDER	143	16	125	9	0%	0	100%	9
9/4/2006	AL WRENCH CWWTP	89	16	78	6	0%	0	100%	6
9/18/2007	ELECTRIC WINCH	464	7	464	FD	0%	FD	100%	FD
2/26/2014	LOCATOR	650	5	650	FD	50%	FD	50%	FD
1/29/2015	DITCH WITCH LOCATOR	3,604	5	3,604	721	50%	361	50%	360
7/15/1989	WATER MAINS	4,408	39	3,504	113	100%	113	0%	0
1/15/1986	WATER MAIN	21,000	39	18,308	538	100%	538	0%	0
1/15/1987	WATER MAIN	14,346	39	12,139	368	100%	368	0%	0
1/15/1988	WATER MAIN	9,289	39	7,622	238	100%	238	0%	0

CUC, Inc.
Docket No. 2019-64-WS
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2018

Date Acquired	Description	Amount	Service Life	Accumulated Depreciation/ Amortization	Depreciation/ Amortization Expense	Allocation to		Depr./Amort. Expense Allocated to	Depr./Amort. Expense Allocated to	
						Water	Wastewater		Water	Wastewater
2/26/2019	1 MUELLER ANGLE VALVE & 3/4 MUELLER ANGLE VALVE	2,523	25	101	101	100%	0%	101	0	0
2/26/2019	2 MSTR MTR AND SUPPLIES	1,484	15	99	99	100%	0%	99	0	0
6/24/2019	12 5/8 X 3/4 MSTR MTR	758	15	51	51	100%	0%	51	0	0
4/26/2019	6 1X3/4 WATTS LF7R10- U2 AND RELATED SUPPLIES	996	15	66	66	100%	0%	66	0	0
6/14/2019	4X1 ROMAC 202NS & 1 MCDONALD 74701 CORP STOP	249	15	17	17	100%	0%	17	0	0
8/7/2019	2 MSTR MTR M23/ 1MSTR MR B16 AND SUPPLIES	2,371	15	158	158	100%	0%	158	0	0
8/14/2019	2 MCDONALD 4754/74753/760101W AND MSTR MTR M24	2,286	15	152	152	100%	0%	152	0	0
3/12/2006	METERS	472	15	441	31	100%	0%	31	0	0
5/30/2006	MASTER METER	320	15	299	21	100%	0%	21	0	0
6/8/2006	12 1 METERS AND SUPPLIES	913	15	852	61	100%	0%	61	0	0
7/19/2006	24 3/4 METERS, 4 1 METERS	1,371	15	1,280	91	100%	0%	91	0	0
12/8/2006	12 METERS	469	15	438	31	100%	0%	31	0	0
4/18/2007	METERS WATER	901	15	781	60	100%	0%	60	0	0
8/14/2007	WATER METERS	910	15	789	61	100%	0%	61	0	0
1/14/2008	12 - 3/4 WATER METERS	475	15	380	32	100%	0%	32	0	0
7/1/2008	12-3/4" WATER METERS	623	15	498	42	100%	0%	42	0	0
8/6/2008	8 MASTER METERS	899	15	719	60	100%	0%	60	0	0
1/14/2009	12 3/4 MSTR METERS	559	15	410	37	100%	0%	37	0	0
4/28/2009	WATER METERS	1,178	15	864	79	100%	0%	79	0	0
5/11/2009	MASTER METER	326	15	239	22	100%	0%	22	0	0
10/9/2009	4 MASTER METERS	449	15	329	30	100%	0%	30	0	0
5/24/2010	2 MASTER METERS	326	15	217	22	100%	0%	22	0	0
11/29/2010	6 MSTR METERS 12 3/4	1,233	15	822	82	100%	0%	82	0	0
5/31/2011	10 METERS	1,323	15	794	88	100%	0%	88	0	0
9/6/2011	4 METERS	449	15	269	30	100%	0%	30	0	0
11/7/2011	18 METERS	1,138	15	683	76	100%	0%	76	0	0
12/4/2012	METERS	385	15	205	26	100%	0%	26	0	0
5/24/2013	4 METERS	454	15	212	30	100%	0%	30	0	0
7/24/2013	4 METERS AND WASHERS	456	15	213	30	100%	0%	30	0	0
8/27/2013	2" METERS	515	15	240	34	100%	0%	34	0	0
12/12/2013	18- 3/4" METERS 8-1" METERS	2,062	15	962	137	100%	0%	137	0	0
5/9/2014	TWELVE 5/8 X 3/4 METERS	681	15	272	45	100%	0%	45	0	0
8/13/2014	2 SADDLES AND 2 CORP STOPS	312	25	75	12	100%	0%	12	0	0
8/19/2014	6 BALL CHECK VALVES	452	25	108	18	100%	0%	18	0	0
3/9/2015	8 BALL CHECK VALVES	602	25	120	24	100%	0%	24	0	0
7/2/2015	12 WATER METERS AND RELATED	1,488	15	496	99	100%	0%	99	0	0
3/24/2016	5 1-1/4 INCH BALL CHECK VALVES	376	25	60	15	100%	0%	15	0	0
3/25/2016	12 5/8" X 3/4" METERS	700	15	187	47	100%	0%	47	0	0
7/26/2016	PARTS & SUPPLIES FOR INSTALLATION OF 2" METERS	2,512	15	670	167	100%	0%	167	0	0
10/4/2016	2" METER AND ACCESSORIES	1,233	15	329	82	100%	0%	82	0	0
12/28/2016	8 1" METERS	1,230	15	328	82	100%	0%	82	0	0
12/28/2016	12 3/4" METERS	750	15	200	50	100%	0%	50	0	0
2/8/2017	2 TWO- INCH METERS & RELATED PARTS	2,880	15	576	192	100%	0%	192	0	0
3/17/2017	1 1/2" WATER METER	323	15	65	22	100%	0%	22	0	0
5/11/2017	8 1" WATER METERS, 4 BFP	1,391	15	278	93	100%	0%	93	0	0
10/12/2017	8 1" METERS	1,230	15	246	82	100%	0%	82	0	0
11/21/2017	12 3/4" METERS	356	15	71	24	100%	0%	24	0	0
10/12/2017	12 3/4 METERS	750	15	150	50	100%	0%	50	0	0
4/4/2018	6 3/4" METERS, 3 1"METERS	836	15	111	56	100%	0%	56	0	0

CUC, Inc.
Docket No. 2019-64-WS
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2018

Date Acquired	Description	Amount	Service Life	Accumulated Depreciation/ Amortization	Depreciation/ Amortization Expense	Allocation to Water	Depr./Amort. Expense Allocated to Water	Allocation to Wastewater	Depr./Amort. Expense Allocated to Wastewater
4/4/2018	20 BACK FLOW PREVENTERS	710	15	95	47	100%	47	0%	0
4/12/2018	FIVE 1" METERS	769	15	103	51	100%	51	0%	0
5/25/2018	TWELVE 1-1/4" BALL CHECK VALVES	916	25	73	37	100%	37	0%	0
5/25/2018	18 1" ANGLE VALVES	2,910	25	233	116	100%	116	0%	0
10/26/2018	SIX 5/8" X 3/4" METERS	375	15	50	25	100%	25	0%	0
10/26/2018	TWELVE 1" METERS	1,844	15	246	123	100%	123	0%	0
4/29/1999	KAWASAKI MULE 550	6,089	6	6,089	FD	100%	FD	0%	FD
5/12/2016	2016 POLARIS 570 RANGER	11,127	6	7,418	1,855	100%	1,855	0%	0
5/21/2019	GF 1580 RNG&CVR SWR LOW PROFILE	482	30	16	16	100%	16	0%	0
8/3/2006	ALUM LADDER	143	16	125	9	100%	9	0%	0
2013	WATER METER INSTALLATIONS	1,371	15	637	91	100%	91	0%	0
2013	FIRE HYDRANT WORK	307	40	56	8	100%	8	0%	0
1986-1997	CUMULATIVE WATER TAP EXPENSES	32,066	16	32,066	FD	100%	FD	0%	FD
1986-1997	CUMULATIVE SEWER TAP EXPENSES	16,065	16	16,065	FD	0%	FD	100%	FD
1998-2013	CUMULATIVE WATER TAP EXPENSES	56,674	16	52,921	1,180	100%	1,180	0%	0
1998-2013	CUMULATIVE SEWER TAP EXPENSES	25,631	16	24,062	548	0%	0	100%	548
Total Plant & Equipment in Service		910,059		700,995	60,414		32,848		27,566
Capitalized (Removed) by ORS									
2014-2019	CUMULATIVE WATER TAP EXPENSES	15,300	16	3,247	958	100%	958	0%	0
2014-2019	CUMULATIVE SEWER TAP EXPENSES	7,683	16	1,703	480	0%	0	100%	480
6/15/2018	HYDRANT RISER	514	40	26	13	100%	13	0%	0
7/5/2018	BALLAST, 120V/60 HZ	570	6	190	95	100%	95	0%	0
1/21/2014	2014 FORD F150 - VIN: 1FTFW1EF9EFA05987	(22,428)	6	(22,428)	(3,738)	50%	(1,869)	50%	(1,869)
1/21/2014	2014 FORD F150 - VIN: 1FTMF1CM0EKD068687	(22,428)	6	(22,428)	(3,738)	50%	(1,869)	50%	(1,869)
1/21/2014	2014 FORD F150 - VIN: 1FTMF1CMXEKD13539	(26,245)	6	(26,245)	(4,374)	50%	(2,187)	50%	(2,187)
4/18/2014	2014 MERCEDES ML350W2	(67,228)	6	(67,228)	(11,205)	50%	(5,603)	50%	(5,602)
Gross Plant in Service		795,797		567,832	38,905		22,386		16,519
Contributions in Aid of Construction (Tap Fees)		(1,233,902)		1,091,088	(23,111)		(14,664)		(8,447)
Depreciation & Amortization Expense				15,794	7,722				8,072
Less: Per Book				24,946	15,009				9,937
ORS Depreciation and Amortization Expense Adjustment #4				(9,152)	(7,287)				(1,865)

FD = Fully Depreciated

CUC, Inc.
Docket No. 2019-64-WS
Computation of Income Taxes
For the Test Year Ended December 31, 2018

After Accounting & Pro Forma Adjustments			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	1,284,946	855,359	429,587
Operating Expenses	1,180,944	633,253	547,691
Net Operating Income Before Taxes	104,002	222,106	(118,104)
Less: Annualized Interest Expense	2,187	1,008	1,179
Taxable Income - State	101,815	221,098	(119,283)
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	5,091	11,055	(5,964)
Taxable Income - Federal (Taxable Income - State less State Income Taxes)	96,724	210,043	(113,319)
Federal Income Taxes %	21.0%	21.0%	21.0%
Federal Income Taxes	20,312	44,109	(23,797)
Total Income Taxes	25,403	55,164	(29,761)
Less: Income Taxes Per Books	17,596	17,596	0
Income Tax Adjustment - Accounting and Pro Forma Adjustment #7	7,807	37,568	(29,761)
After ORS Proposed Increase			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	1,379,196	909,289	469,907
Operating Expenses	1,181,724	633,699	548,025
Net Operating Income Before Taxes	197,472	275,590	(78,118)
Less: Annualized Interest Expense	2,187	1,008	1,179
Taxable Income - State	195,285	274,582	(79,297)
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	9,764	13,729	(3,965)
Taxable Income - Federal (Taxable Income - State less State Income Taxes)	185,521	260,853	(75,332)
Federal Income Taxes %	21.0%	21.0%	21.0%
Federal Income Taxes	38,959	54,779	(15,820)
Total Income Taxes	48,723	68,508	(19,785)
Less: Income Taxes After Accounting & Pro Forma Adjustments	25,403	55,164	(29,761)
Income Tax Adjustment - Proposed Increase Adjustment #16	23,320	13,344	9,976

CUC, Inc.
Docket No. 2019-64-WS
Computation of Cash Working Capital Allowance
For the Test Year Ended December 31, 2018

After Accounting & Pro Forma Adjustments

	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
Operating Expenses		596,741	514,468
Allowable Rate		<u>12.50%</u>	<u>12.50%</u>
Computed Cash Working Capital		74,593	64,309
Less: Cash Working Capital - Application Per Books		<u>0</u>	<u>0</u>
ORS Cash Working Capital Adjustment #13	<u><u>138,902</u></u>	<u><u>74,593</u></u>	<u><u>64,309</u></u>

CUC, Inc.
Docket No. 2019-64-WS
Operating Experience, Operating Margin, & Rate Base Reflecting the Company's Proposed Increase
For the Test Year Ended December 31, 2018
Combined Operations

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Company's Proposed Increase \$	(5) After Proposed Increase \$
Operating Revenues:					
Metered Revenue	1,213,936	(12,824) (1)	1,201,112	253,850 (14)	1,454,962
Other Revenue	63,131	20,703 (2)	83,834	0	83,834
Total Operating Revenues	<u>1,277,067</u>	<u>7,879</u>	<u>1,284,946</u>	<u>253,850</u>	<u>1,538,796</u>
Operating Expenses:					
Operating Expenses	1,130,764	(19,555) (3)	1,111,209	0	1,111,209
Depreciation & Amortization	24,946	(9,152) (4)	15,794	0	15,794
Rate Case Expenses	0	4,014 (5)	4,014	0	4,014
Taxes Other Than Income	49,466	461 (6)	49,927	2,100 (15)	52,027
Income Taxes	17,596	7,807 (7)	25,403	62,812 (16)	88,215
Total Operating Expenses	<u>1,222,772</u>	<u>(16,425)</u>	<u>1,206,347</u>	<u>64,912</u>	<u>1,271,259</u>
Total Operating Income	<u>54,295</u>	<u>24,304</u>	<u>78,599</u>	<u>188,938</u>	<u>267,537</u>
Other Operating Income					
Add: Amortization of Excess Revenues	0	0	0	26,037 (17)	26,037
Net Operating Income	<u>54,295</u>	<u>24,304</u>	<u>78,599</u>	<u>214,975</u>	<u>293,574</u>
Less: Interest Expense	1,365	822 (8)	2,187	0	2,187
Net Income for Margin	<u>52,930</u>	<u>23,482</u>	<u>76,412</u>	<u>214,975</u>	<u>291,387</u>
Operating Margin	<u>4.14%</u>		<u>5.95%</u>		<u>18.94%</u>
Original Cost Rate Base:					
Gross Plant in Service	603,995	191,802 (9)	795,797	0	795,797
Accumulated Depreciation	(508,622)	(59,210) (10)	(567,832)	0	(567,832)
Net Plant in Service	95,373	132,592	227,965	0	227,965
Contributions in Aid of Construction (CIAC)	(831,775)	(402,127) (11)	(1,233,902)	0	(1,233,902)
Accumulated Amortization of CIAC	0	1,091,088 (12)	1,091,088	0	1,091,088
Materials and Supplies	6,227	0	6,227	0	6,227
Cash Working Capital	0	138,902 (13)	138,902	0	138,902
Accumulated Deferred Income Taxes	0	0	0	0	0
Total Rate Base	<u>(730,175)</u>	<u>960,455</u>	<u>230,280</u>	<u>0</u>	<u>230,280</u>

CUC, Inc.
Docket No. 2019-64-WS
Operating Experience, Operating Margin, & Rate Base Reflecting the Company's Proposed Increase
For the Test Year Ended December 31, 2018
Water Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Company's Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenues:</u>					
Metered Revenue	828,140	(7,841) (1)	820,299	161,232 (14)	981,531
Other Revenue	20,412	14,648 (2)	35,060	0	35,060
Total Operating Revenues	<u>848,552</u>	<u>6,807</u>	<u>855,359</u>	<u>161,232</u>	<u>1,016,591</u>
<u>Operating Expenses:</u>					
Operating Expenses	605,627	(8,886) (3)	596,741	0	596,741
Depreciation & Amortization	15,009	(7,287) (4)	7,722	0	7,722
Rate Case Expenses	0	2,007 (5)	2,007	0	2,007
Taxes Other Than Income	24,733	2,050 (6)	26,783	1,334 (15)	28,117
Income Taxes	17,596	37,568 (7)	55,164	39,895 (16)	95,059
Total Operating Expenses	<u>662,965</u>	<u>25,452</u>	<u>688,417</u>	<u>41,229</u>	<u>729,646</u>
Total Operating Income	<u>185,587</u>	<u>(18,645)</u>	<u>166,942</u>	<u>120,003</u>	<u>286,945</u>
<u>Other Operating Income</u>					
Add: Amortization of Excess Revenues	0	0	0	35,040 (17)	35,040
Net Operating Income	<u>185,587</u>	<u>(18,645)</u>	<u>166,942</u>	<u>155,043</u>	<u>321,985</u>
Less: Interest Expense	683	325 (8)	1,008	0	1,008
Net Income for Margin	<u>184,904</u>	<u>(18,970)</u>	<u>165,934</u>	<u>155,043</u>	<u>320,977</u>
Operating Margin	<u>21.79%</u>		<u>19.40%</u>		<u>31.57%</u>
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	222,489	123,468 (9)	345,957	0	345,957
Accumulated Depreciation	(169,351)	(45,470) (10)	(214,821)	0	(214,821)
Net Plant in Service	53,138	77,998	131,136	0	131,136
Contributions in Aid of Construction (CIAC)	(524,855)	(220,145) (11)	(745,000)	0	(745,000)
Accumulated Amortization of CIAC	0	645,407 (12)	645,407	0	645,407
Materials and Supplies	0	0	0	0	0
Cash Working Capital	0	74,593 (13)	74,593	0	74,593
Accumulated Deferred Income Taxes	0	0	0	0	0
Total Rate Base	<u>(471,717)</u>	<u>577,853</u>	<u>106,136</u>	<u>0</u>	<u>106,136</u>

CUC, Inc.
Docket No. 2019-64-WS
Operating Experience, Operating Margin, & Rate Base Reflecting the Company's Proposed Increase
For the Test Year Ended December 31, 2018
Sewer Operations

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Company's Proposed Increase \$	(5) After Proposed Increase \$
Operating Revenues:					
Metered Revenue	385,796	(4,983) (1)	380,813	92,618 (14)	473,431
Other Revenue	42,719	6,055 (2)	48,774	0	48,774
Total Operating Revenues	<u>428,515</u>	<u>1,072</u>	<u>429,587</u>	<u>92,618</u>	<u>522,205</u>
Operating Expenses:					
Operating Expenses	525,137	(10,669) (3)	514,468	0	514,468
Depreciation & Amortization	9,937	(1,865) (4)	8,072	0	8,072
Rate Case Expenses	0	2,007 (5)	2,007	0	2,007
Taxes Other Than Income	24,733	(1,589) (6)	23,144	766 (15)	23,910
Income Taxes	0	(29,761) (7)	(29,761)	22,917 (16)	(6,844)
Total Operating Expenses	<u>559,807</u>	<u>(41,877)</u>	<u>517,930</u>	<u>23,683</u>	<u>541,613</u>
Total Operating Income	<u>(131,292)</u>	<u>42,949</u>	<u>(88,343)</u>	<u>68,935</u>	<u>(19,408)</u>
Other Operating Income					
Add: Amortization of Excess Revenues	0	0	0	(9,003) (17)	(9,003)
Net Operating Income	<u>(131,292)</u>	<u>42,949</u>	<u>(88,343)</u>	<u>59,932</u>	<u>(28,411)</u>
Less: Interest Expense	682	497 (8)	1,179	0	1,179
Net Income for Margin	<u>(131,974)</u>	<u>42,452</u>	<u>(89,522)</u>	<u>59,932</u>	<u>(29,590)</u>
Operating Margin	<u>-30.80%</u>		<u>-20.84%</u>		<u>-5.67%</u>
Original Cost Rate Base:					
Gross Plant in Service	381,506	68,334 (9)	449,840	0	449,840
Accumulated Depreciation	(339,271)	(13,740) (10)	(353,011)	0	(353,011)
Net Plant in Service	42,235	54,594	96,829	0	96,829
Contributions in Aid of Construction (CIAC)	(306,920)	(181,982) (11)	(488,902)	0	(488,902)
Accumulated Amortization of CIAC	0	445,681 (12)	445,681	0	445,681
Materials and Supplies	6,227	0	6,227	0	6,227
Cash Working Capital	0	64,309 (13)	64,309	0	64,309
Accumulated Deferred Income Taxes	0	0	0	0	0
Total Rate Base	<u>(258,458)</u>	<u>382,602</u>	<u>124,144</u>	<u>0</u>	<u>124,144</u>